

Arutmin coal mine stake sale likely to be completed in next six-eight months

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Anil Sardana, managing director and CEO of Tata Power Co. Ltd, in an interview, spoke about the company's third quarter performance, generation issues at Mundra and the sale of stake in the Arutmin coal mine. Edited excerpts:

First, if you can take us through the operations at Mundra. The losses were reduced but generation and sales also came down. How do you see it panning out this year and what caused the lower sales in revenues?

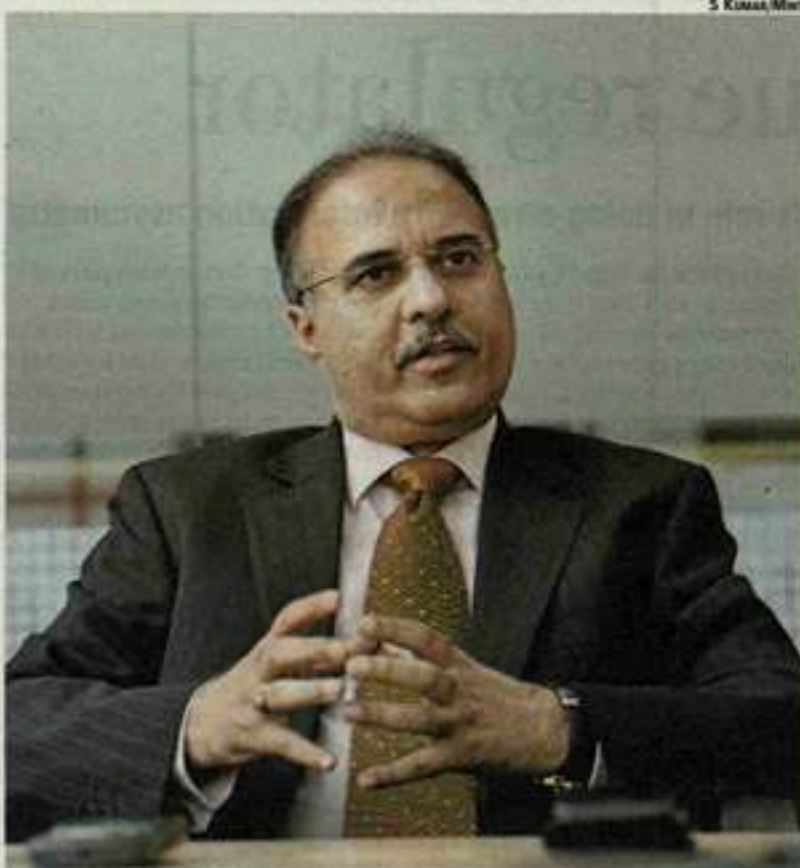
Mundra has been really registering a very good performance. Operationally things have been very good and we have been able to, therefore, register very strong Ebitda (earnings before interest, taxes, depreciation and amortization) and operating profits at Mundra. Fortunately for us, the reduction in coal prices helped us... we had to impair the coal investment for the simple reason that the long-term prospects for coal shows that the prices are going to go down. So, therefore, we must make sure that we reflect our accounts appropriately.

The generation at the Mundra plant was lower in this quarter at close to 6,500 million units versus 7,300 million units year-on-year. Any reason for the reduction in generation and what will the generation be on an average?

The issue for generation is not based on the generator. The generation aspect is based on what withdrawal takes place by the procurers. Our availability factor continues to be as strong as before. However, because of the low demand at the distribution company end, the withdrawal was lower. Don't go by the million units because the million units is of function of withdrawal. You have to see a generator's performance by virtue of availability factor and availability factor was as strong as previous quarters.

Isn't merchant sales possible for undrawn power?

No, unfortunately an ultra mega power project has 100% power purchase agreements tied up. Even the tariff policy that has been announced recently, we will have to of course go and seek some decisions. The ultra mega power



Positive note: Sardana says Mundra plant is able to generate and provide availability factor for procurers to draw as much power as they want.

INTERVIEW

project has to have clarity that if there is undrawn demand and particularly when the units are so cost competitive. Could we actually be able to sell it in the open market because this will be able to sell like hot cakes because imagine that even with the compensated tariff included, the tariff today is ₹2.60. So, you cannot imagine such competitive power from imported coal.

It is basically because the discoms are so deep in the red that you are not able to sell. Do you expect that the contract could be rewritten or tweaked?

The issue simply is that the procurement of cheaper power is not a function of their being in the red or their being in bad fiscal health. The issue is that their network is not able to cope. So, they have brownouts, they have issues related to their network. So, that is the factor of how the withdrawal takes place for such competitive power because otherwise they won't let such low cost power go by.

Just on the Mundra operations, what do you see as the Ebitda for the Mundra operations or the plant say in FY17 and by when do you think it could become profit-making?

Instead of giving guidance, I

would say that Mundra is today certainly able to give a very good performance. It is able to generate and provide availability factor for the procurers to really draw as much power as they want.

One factor that I want to highlight since we still have under-recovery on the fuel side, what we tend to do is maintain our availability at 80%, where we recover 100% of the fixed cost. Now, imagine if tomorrow, this availability was allowed to be sold in the market, 10% higher availability or 15% higher availability, we can actually make that much more in the merchant market and give advantage to the procurers also.

If you just recall the CERC verdict that came in: it suggested that if we sell the extra power in the market, we actually can share 60% of that margin with the procurers itself. So, their actual cost of procurement will further reduce from ₹2.60 to something like ₹2.40 or so.

So, it is a win-win for them, us and for the country because you cannot assume that you will get such competitive power, and more so, environmentally so benign because our efficiency levels are the highest in the country.

When do you expect a decision on this?

Now we are all waiting for the APTEL (Appellate Tribunal For Electricity) order to come in and this is certainly one of the factors.

However, in the past, we have been making this point to the procurers that while the rest of the subject matters can be adjudicated by the legal system, why not create this advantage to you and to us that we actually generate to the fullest potential and you also get competitive power and you also get little bit of margins by virtue of higher sales that we can do.

In fact we have even suggested that if this formula of 60:40 is subject to legal interpretation, we can put the entire margin in Escrow so that we can share that later. However, as you know, today every procurer wants to just safeguard and wait for the legal judgment to come. Nobody is really caring about what is good for country.

What is the update on the stake sale of the Arutmin coal mine or when can we expect that stake sale to get completed? How much do you think you could get?

The price as we declared earlier, \$510 million, that stays for the stake sale. It is only that since the coal prices actually reduced so much and the future outlook also became negative that the bankers have been very shy in terms of giving clearances to restructure the entire deal in terms of getting the infrastructure companies to get segregated. We are getting closer. I will only say that in the last few quarters we have seen positive progress.

This calendar?

We are hopeful that we should be able to do it in the next six to eight months.

The compensatory tariff hearing we know is in final stages. Will that decision also come this month or this quarter?

The hearing is complete; in fact, it is now reserved for judgement. So, one can hope that APTEL would be pronouncing the judgement soon.

Should we be prepared for anything more on the impairment front?

We have impaired the coal mine investments, all coal mines in fact, and we are hopeful that we won't see too much of volatility beyond this. Therefore, those one-off transactions that you see on the balance sheet won't happen.